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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Whitney Hatch
Assistant Vice President
Regulatory Affairs

GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, D.C. 20036
(202) 462-5290

July 12, 1996

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

EX PARTE: Implementation of Local Competition
CC Docket No. 96-98

Dear Mr. Caton:

On July 9th GTE sent the attached letter to Chairman Reed Hundt. Due to an oversight, an ex parte notification was not filed at the same time. Please incorporate this letter into the record of the above-captioned proceeding at your earliest convenience.

Please call me if you have any questions.

Sincerely,

Whitney Hatch

Attachment
c: J. Nakahata

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Charles R. Lee
Chairman and
Chief Executive Officer



GTE Corporation

One Stamford Forum
Stamford, CT 06904
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July 9, 1996

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The Honorable Reed Hundt
Chairman
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

Dear Chairman Hundt:

Thank you for making time to meet with the USTA delegation. Your participation and encouragement in open dialogue during this historic period in our industry is appreciated. The FCC and industry both face enormous challenges in implementing the 1996 Telecommunications Act in a manner that promotes fair competition and preserves and advances critical universal service objectives. I am writing to express GTE's commitment to assist the Commission in meeting these challenges, and to state certain concerns that arose as a result of our meeting.

As you recognized, the pricing principles established to guide negotiations and PUC deliberations will have far-reaching consequences. They will largely determine the extent to which the American public enjoys the Act's intended benefits of efficient new competitive choices, growth in investment and jobs, and preservation and enhancement of universal service. Consequently, your decisions require great balance and care.

I was particularly interested in our discussions on universal service. As you know, GTE has a very innovative approach to universal service on file with the Commission. The level of universal support that will ultimately be needed is difficult to project because of the many assumptions that go into the calculation. GTE's fundamental approach, however, is to drive down the level of support via price rationalization, targeting where that support goes, and relying on marketplace forces to wring cost out of the system. We believe the starting point for this process is the level of subsidy – both explicit and implicit – that is part of the current support mechanism.

As we also discussed, GTE is greatly concerned that the Commission's understandable desire to jump-start competition might lead to actions that create artificial and unsustainable subsidies. Proposals advanced by dominant interexchange carriers would not allow incumbent local exchange carriers to recoup their legitimate costs. This would doom true facilities-based competition and eliminate incentives for associated investment and jobs. These proposals also would have catastrophic consequences for universal service and local telephone rates.

The Honorable Reed Hundt
July 9, 1996
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GTE has been meeting with your Common Carrier Bureau staff and Chief Economist to discuss ways to achieve efficient competitive entry opportunities, consistent with the other equally important objectives of the Act. Based on recent discussions between GTE and your experts on this matter, we may be reaching common agreement. We intend to offer more detailed recommendations in the near future.

Nonetheless, rational pricing will not, by itself, assure the goals of Congress are met. Pending reform of universal service funding and the access charges rules, the FCC must assure that interexchange carriers cannot use the section 251 process to avoid paying access charges. I am accordingly troubled that you interpret the Telecommunications Act as allowing IXC's to re-characterize access services as an aggregation of unbundled network elements. We believe section 251(g) precludes such an interpretation, and our position is supported by legislative history stating that Congress did not intend section 251 to affect the access charge framework. Indeed, permitting the IXC's to end-run around access charges would undermine GTE's ability to preserve affordable rates and compromise our current network investment plans. I have similar concerns regarding the aggregation of unbundled network elements to avoid the resale provisions of the 1996 Act.

Finally, I urge the Commission to follow the Congressional strategy of using marketplace forces to promote competition through a negotiation, mediation, and arbitration process. This approach properly gives the marketplace the first opportunity to establish a solution, and recognizes that different solutions will be appropriate in different states and for different entrants. GTE is committed to negotiating fair agreements that fully comply with the Act's requirements, and it is in the middle of highly productive negotiations with several new entrants. Detailed national standards, therefore, are neither necessary or appropriate.

Should you wish to discuss these matters further, please call me.

Sincerely,



Charles R. Lee
Chairman and Chief
Executive Officer
GTE Corporation

CRL:cej